

More than money

How social finance can build resilience in the arts sector

By Elizabeth MacKinnon and Christine Pellerin
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Performing Arts

**METCALF
FOUNDATION**

Social finance

Social finance tools and instruments provide a way to actively invest in businesses or in funds in order to generate a social or environmental impact, while also generating a financial return for the investor.

When the Metcalf Foundation issued a request for research proposals to explore new revenue generation models for the performing arts, **Elizabeth MacKinnon** was working in Ottawa as a consultant for non-profits and the public sector and **Christine Pellerin** was Director of Development & Partnerships at The Theatre Centre in Toronto. Although they did not know each other, both Elizabeth and Christine submitted proposals to explore how the non-profit arts sector could use social finance to strengthen its financial footing.

While there is extensive literature on the development of social finance and its application to the wider social sector, most literature about social finance does not intentionally focus on arts or culture as a possible investment category.

The opportunity to think about innovative ways to expand the scope of arts funding is what drew both authors of this paper to the topic of social finance. As is often the case in the arts, collaboration and multi-disciplinary approaches are used to create work that could not be completed without the sharing of resources. In that spirit and at the suggestion of the Metcalf Foundation, Elizabeth and Christine agreed to share resources and collaborate as co-authors on this paper.

Table of Contents

4	Foreword
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	Introduction
7	Rationale: why the arts need to join the social finance movement
8	More than money
8	Potential opportunities

	Social Finance: a Primer
10	Social finance and impact investing
11	Social finance in Canada
13	Recent milestones
13	Opportunities and challenges

	Key Players
17	Demand
18	Supply
21	Intermediaries and enablers
22	How does an impact investment get made?

	A Case Study: the UK Arts Impact Fund
26	How it works
27	Assessment process
28	Results from the fund
29	Key observations from the first year
31	Next steps

	Opportunities for the Arts in Canada
34	Create new spaces
35	Bridge revenues and fundraising
35	Make investments for growth
36	Save costs to improve the bottom line
37	Considerations for arts organizations
39	Considerations for investors

	Conclusion and Call to Action
41	Where to go from here
41	Arts organizations
42	Arts funders
42	Conclusion

43	Endnotes
45	Author bios
45	Acknowledgements

Foreword

Despite the extraordinary, imaginative, and powerful work they create, it's not easy being an arts organization these days. Like many in the non-profit world, arts organizations face significant challenges: inadequate and unpredictable funding, fatigued and under-resourced staff, and a rapidly changing environment that throws traditional strategies into question. Additionally, the arts sector must address the implications of changing audience demographics, shifts in how culture and entertainment are purchased and consumed, and a widening gap between the explosive increase in art practices and limited sources of available revenue.

Across all of civil society, organizations are searching for innovative solutions to the enduring problem of financial resources. Social finance, which seeks to mobilize capital for the public good, is one of the most promising responses to emerge. Social finance tools create opportunities for investors to finance projects that realize both financial and social returns. A growing number of foundations, endowments, and other organizations managing pools of capital are embracing the promise of being able to organize their investments to achieve this blend of financial and social value. This prospect has particular potency for endowment-based organizations, like foundations, as it allows the latent potential of the organization's capital to be deployed in pursuit of its mission, thus massively amplifying the impact of investments.

The Metcalf Foundation is deeply committed to both the value of the performing arts and to the success of its people and organizations. Much of our work in the performing arts is focused on bolstering capacity, and much of our recent granting has focused on helping organizations explore new and alternative sources of revenues. Periodically, through our Innovation Fellowship Program, we support the exploration of a topic that we hope will advance both policy and practice. The impetus for this Innovation Fellowship came from our realization that while some within civil society—mainly environmental and community groups—have become active participants and beneficiaries of social finance investments, to a striking degree, the arts community has not.

Admittedly, there are inherent challenges in bringing social finance to the arts. Since social finance is premised on an investment of capital in exchange for a financial and a social or environmental return, investors usually require that the social return, like the financial, be measurable and tangible. Such a marketplace requires arts organizations to develop a robust facility for measuring impact and for making the case for the public good that arts and culture deliver.

These are not new expectations for the arts but many of the enormous societal and individual benefits drawn from the arts do not easily lend themselves to such yardsticks. There are, however, important aspects of arts practice that can work well within these parameters. These include areas where involvement in the arts produces desirable social outcomes such as youth engagement, community development, inclusivity, or educational attainment.

We hope this paper provokes lively discussion, deeper understanding, and practical explorations for how performing arts organizations can join the social finance movement in Canada. The British example of the Arts Impact Fund—supported by a range of private organizations and scaffolded with thoughtful and progressive goals and measurements—is a model that could be a welcome and dynamic addition here. With the traditional reliance upon grants and earned revenue under strain, we believe the possibility of unlocking new pools of funds is a compelling and enticing proposition that holds great promise for the arts sector.

A handwritten signature in black ink, appearing to read "Sandy Houston", with a long, sweeping tail that extends to the right and then curves downwards.

Sandy Houston
President and CEO
Metcalf Foundation

The **Metcalf Foundation** helps Canadians imagine and build a just, healthy, and creative society by supporting dynamic leaders who are strengthening their communities, nurturing innovative approaches to persistent problems, and encouraging dialogue and learning to inform action.

The purpose of the **Metcalf Innovation Fellowship** is to give people of vision the opportunity to investigate ideas, models, and practices that have the potential to lead to transformational change.

01

Introduction



**Rationale:
why the arts need to join
the social finance movement**

Given the challenges within the non-profit arts sector of having to constantly seek and develop new revenue sources, it's no mystery why finances are a perennial preoccupation.

Traditional sources of financing can be broken down into four categories:

- **Earned revenue** (ticket and merchandise sales);
- **Public funding** (grants from governments and public foundations);
- **Private philanthropy** (donations from individuals, corporations, private foundations, and corporate sponsorship); and
- **Other** (includes equity or loans, as well as interest from investments).

Typically, discussions of arts financing are focused on the amount of public funding and private donations going to arts organizations, and the advocacy and strategies required to raise these two revenue components.

In their papers, both Metcalf Innovation Fellows **Shannon Litzenberger** and **Jane Marsland** write that arts organizations are increasingly interested in structural and funding options beyond the traditional non-profit/charitable model. This is the result of competition for scarce resources and is also driven by changing arts practices, evolving technologies, and wider changes in society blurring the division between the “for profit” and “non-profit” sectors.

Along with these shifting views of the structures and models that sustain the non-profit arts sector, there is a growing emphasis on public engagement and the social benefits of the arts among funders and arts organizations alike.¹ Public funders are increasingly requesting information from organizations on the social impacts of their work, and are using evidence and arguments related to social impact and participation to support their budgetary requests and legitimize their expenditures to the public. At the same time, the evolving recognition and influence of Indigenous and culturally diverse arts practices, Deaf, disability, and mad arts practices, community arts, socially engaged art, art and education, art and health, among other movements, have all stretched the boundaries of the traditional non-profit arts sector to embrace a deeper understanding of the importance of the arts in our lives and communities.



As development of the sector now easily outpaces the growth of government investment, policies that were created to support and sustain a thriving cultural sector have created a legacy of structures, models, working practices, and behaviours that are becoming increasingly challenged.

—Shannon Litzenberger, *Choreographing Our Future: Strategies for supporting next generation arts practice*. Metcalf Foundation, November 2013



...there are no longer enough resources in the public arts funding system to make it feasible for many of our artists to establish fully independent, adequately capitalized, charitable, non-profit organizations.

—Jane Marsland, *Shared Platforms and Charitable Venture Organizations*. Metcalf Foundation, June 2013

**More than money:
How social finance
can build resilience
in the arts sector**

For the Canadian arts sector, social finance represents much more than the potential to access a broader set of financial tools. It's also about reimagining the activities and relationships that sustain the sector. Social finance requires us to think differently about how we plan our work, engage with funders, supporters, and communities, and also how we articulate the social benefit and impact that the arts provide.

**Potential opportunities
that social finance brings
to the performing arts
sector that will be explored
in this paper include:**

Increasing revenues, or helping us to “grow the pie”

Social finance can add to existing arts funding sources by leveraging access to new money.

Building financial and organizational capacity

Organizations need to be able to demonstrate “investment-readiness,” including solid financial management and the ability to present a convincing business case to an investor.

Building resilience

Arts organizations can use social finance to diversify their sources of revenue and make longer-term (beyond a yearly funding cycle) strategic decisions.

Contributing to the case for the social benefits of the arts

Developing clear and consistent impact measures that help investors evaluate projects can also increase understanding and awareness of the value of the arts in our communities and society.

Strengthening ties with the wider non-profit/social impact sector

By being an active player in Canada's growing social finance movement, the arts sector can develop greater collaboration and common cause with non-arts organizations while benefiting from new models, tools, best practices, and resources.

02

Social Finance: a Primer



Social finance and impact investing

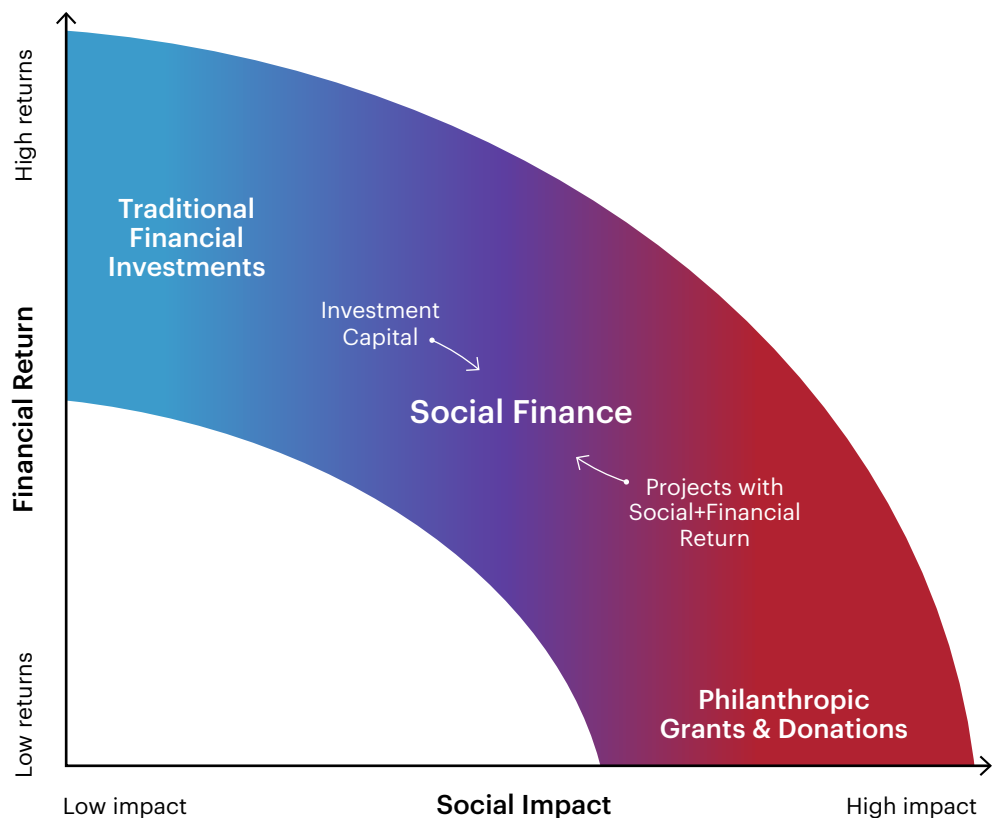
Organizations working for social change have traditionally been funded largely through government aid and private philanthropy. As a world-wide financial movement, social finance expands the possibilities and opportunities for investment in organizations seeking social change.

For investors, whether private individuals, banks, governments, or foundations, social finance offers a broad range of options for investing in the “non-profit and for-profit sectors or in the hybrid space between them”² in order to generate a financial return as well as make a positive social or environmental impact.

For those in need of capital, social finance can provide a wider range of opportunities to access repayable capital than is available (though often difficult to secure) through conventional channels. The most common of these would be going to a bank to apply for a business loan.

The term “social finance” is often used interchangeably with the term “impact investing.” In this paper the term **social finance** is used to describe the general field of mobilizing capital in ways that generate both a social or environmental impact and a financial return. **Impact investing** is used when discussing, in more technical terms, ways in which these new investment approaches work.

One way of thinking about social finance is to see it as a deployment of capital, occupying a particular purpose, and uniquely situated between philanthropic grants and donations, and purely financial investments.



Impact investing can be made by a range of investors, with the intention of generating a social or environmental impact and a financial return, and can take the form of many different instruments and strategies. One of the most typical, and most applicable to non-profit arts organizations, is the form of a repayable loan, whether for purchase of an asset such as a building, launch of a new program, or to scale-up an existing activity.

Different models will be examined in more detail in later sections. The issue of how arts organizations can navigate within the financial world of measurable returns and outcomes, and manoeuvre through the murky waters of defining and articulating both the intrinsic and the instrumental value of the arts, is also addressed.

Due to the nascent state of social finance, and because definitions and practices are still evolving, it is difficult to accurately quantify the social finance market. That said, as of 2016 the Global Impact Investing Network's (GIIN) survey of large, global impact investors (organizations investing over \$10 million USD) identified \$114 billion in invested assets with an impact mandate, demonstrating a steady growth over the past several years.³

Social finance in Canada

With roots in the cooperative banking movement, social finance is not new to Canada. Quebec has been an innovator in the broader area of the “social economy” for three or more decades already, with organizations, networks, and government supporting engagement and investment in community development through a range of instruments.⁴ Over the past decade, ideas and applications for social finance have been gaining profile across the country, largely focused on community-based investors and a number of sector or issue specific initiatives, such as investment funds for green technology or affordable housing.

In 2010, the Canadian Taskforce on Social Finance made a series of recommendations on how to expand the field and advance policy discussions. The recommendations were directed at government, foundations, and investors and highlighted the potential for social finance to address movements underway, including:

- a growing interest among investors to put their money into projects with a positive impact on society;
- governments seeking new ways of leveraging private investment for public good; and
- a dynamic and growing number of social entrepreneurs, community leaders, and social enterprises looking for new ways of generating revenue and achieving their mandates.



Canadians have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital and the business sector to seek and deliver financial returns. However, this binary system is breaking down as profound societal challenges require us to find new ways to fully mobilize our ingenuity and resources in the search for effective, long-term solutions.

—Canadian Taskforce Social Finance, *Mobilizing Private Capital for Public Good*. 2010.
<https://www.marsdd.com/wp-content/uploads/2011/02/MaRSReport-socialfinance-taskforce.pdf>

For arts organizations, there is clearly an opportunity to actively engage in establishing ways in which the arts make a positive impact and are critical to the well-being of our communities. It sets the stage for the arts sector to make a compelling case for its contributions on every level—artistic, cultural, social, and economic. It pushes all of us to consider what benefits or expressions of public good we are seeking when we invest private or public funds in the arts, and emphasizes a growing interest in measuring the impact on society that goes beyond dollars or attendance figures.

The 2014 *State of the Nation: Impact Investing in Canada* report highlighted that the social finance field in Canada is growing overall but remains highly fragmented, and that “creating the conditions for all market actors to harness the potential of impact investing will require coordinated action within and across sectors and regions.”⁵ Latest estimates of the size of the impact investing market in Canada range from \$6.4 to 9.2 billion as of 2015, reflecting an ongoing growth of investors large and small interested in this approach.⁶

Despite several reports, working groups, recommendations, and a recognized potential, traction on social finance in Canada has been slow. This is due in part to the fragmentation of the field, limited products, a need for greater knowledge and sharing of information and expertise, and also to regulatory hurdles stemming from the rules governing non-profits and charities in the Income Tax Act and Canada Revenue Agency policies.⁷

Recent milestones

Nevertheless, progress continues to be made. A change to the *Income Tax Act*, announced in 2015, allows registered charities to invest in limited partnerships. This change was seen as a way of enabling impact investing for charities and foundations by allowing them to use limited partnerships. This provides a charity or foundation with a fairly simple structure for contributing financially to an initiative through a partnership, without risking contravening rules around business activities solely because of its role in a partnership. In June 2015, the federal government Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, published the *Report on Social Finance in Canada*, which recommended the creation of an advisory panel—involving stakeholders from the public, private, non-profit, and charitable sectors—to help define a national strategy on the development of the social finance marketplace in Canada.

In June of 2017, the Government of Canada announced the creation of a fifteen-member Steering Group from the community, philanthropic, financial, and research sectors to co-develop a Social Innovation and Social Finance Strategy. The group will focus on three key areas:

- the skills and capacity of community organizations and governments to pursue social innovation and social finance, including their capacity to measure social outcomes and impact;
- federal laws, regulations, and policies that have an impact on the ability of community organizations to participate in social innovation and social finance initiatives; and
- access to the capital needed to fund, replicate, and expand the reach of social innovation and social finance projects.⁸

Opportunities and challenges

Social finance is not a magic solution to the financial struggles of the non-profit sector, nor is it a cure-all for society's social issues. From a regulatory perspective, there are still a number of challenges for social finance in Canada. *Income Tax Act* restrictions on business activities for charities and non-profits can make it difficult for organizations to raise substantial revenues through related business activities. A lack of common understanding around the allowable uses of foundation funds and fiduciary responsibility of foundation trustees can also make impact investing seem potentially risky to those with less experience.

The rate of return on impact investments varies depending on the investment approach and criteria. There can be quite a range and in some circumstances placing money in impact investments can require intentionally accepting a lower financial return than would be generated by traditional financial instruments. This shift in investment strategy has presented a learning curve among advisors and decision-makers when it comes to engaging in social finance.

For investors, considering impact investments as part of their regular investment activities (and not as a charitable donation) can mean having to do extra research and due diligence, particularly in the absence of agreed-upon standards and outcome measures.

For non-profits, lack of experience with investment financing and lack of assets to leverage as collateral can compound the perception that they are not, for example, ideal loan candidates. Compared with for-profit businesses that can more easily build their track record of loan repayments, it can perpetuate the belief that non-profits are less likely to repay a loan or are lacking in financial management skills.

Despite these challenges, impact investing presents an avenue for increasing the financial resources available to organizations and projects working towards positive social and environmental outcomes. When seen as a complement to existing public, private, and earned revenue sources, impact investing possesses some advantages, such as timing and flexibility, that can help an organization out of a difficult situation or help it take the next steps in its evolution and growth. It can also present a path for helping an organization build an asset base, such as the acquisition of property, which can make a big difference in terms of sustainability and future plans.

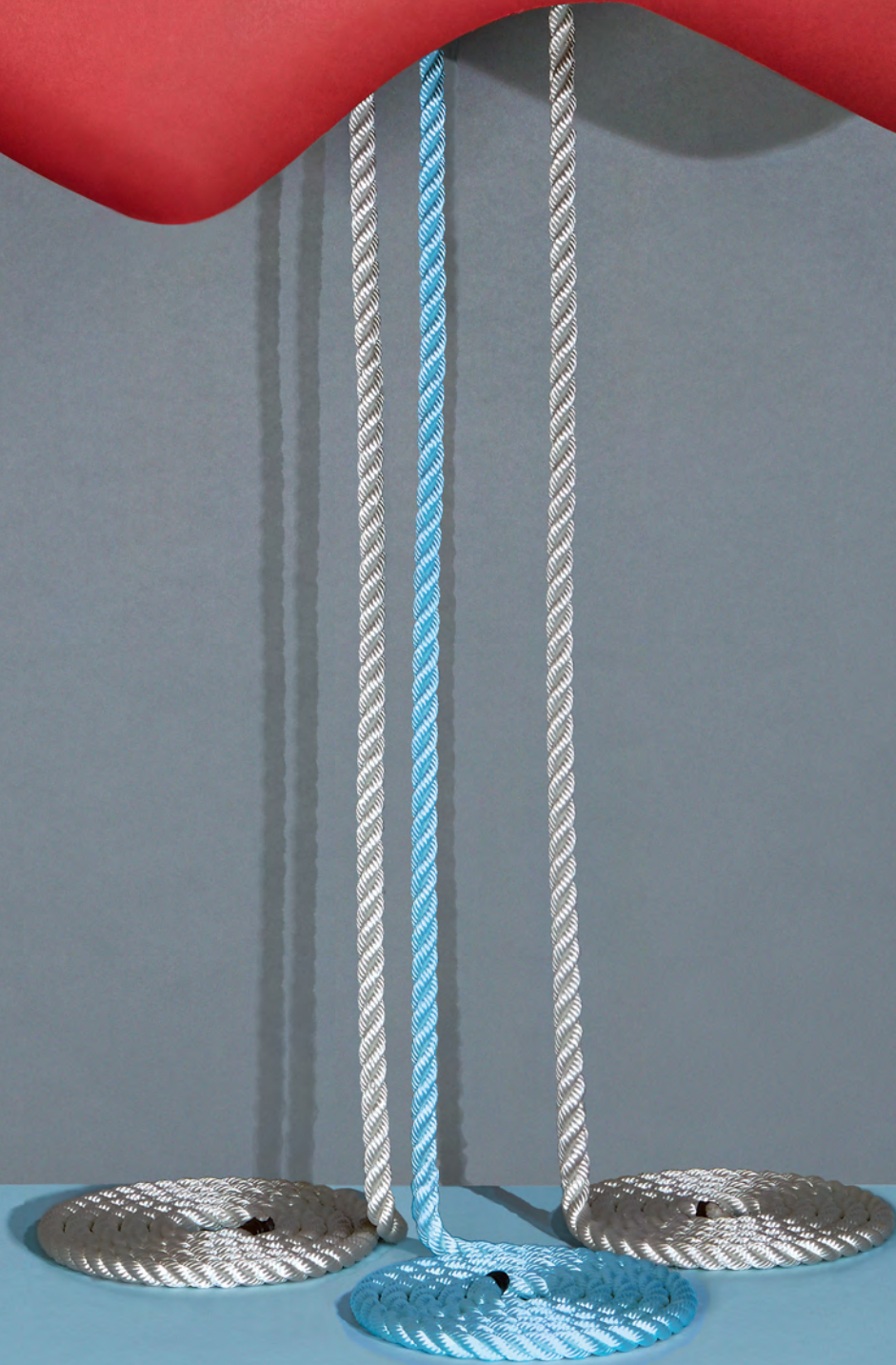
While it's difficult to determine the amount of Canadian impact investment that is already flowing to the arts and culture sector, 8% of Canadian impact investments in a 2016 survey went to "other sectors" which included the arts sector.⁹ This points to an important "naming and framing" problem, where investments in the sector may be categorized around small business, commercial real estate, or community facilities, which makes it more difficult for investors and governments to see potential investment demand. Internationally, surveyed global impact investors report that only 0.4% of their investments (accounting for \$436 million USD) are in the arts and culture sector, although nearly 1 in 10 impact investors had an investment in the sector.¹⁰

This data, and the lack of visibility of the arts and culture sector in impact investing literature, highlight the gap between impact investing today and the economic importance of the arts and culture sector, (estimated at approximately \$54.6 billion CAD in 2014)¹¹ illustrating strong potential for action and further development.

For the arts sector, impact investing represents a largely untapped source of funding. It also introduces an entrepreneurial, asset-building mindset and potentially different ways for arts organizations to work with investors and communities to achieve their mandates.

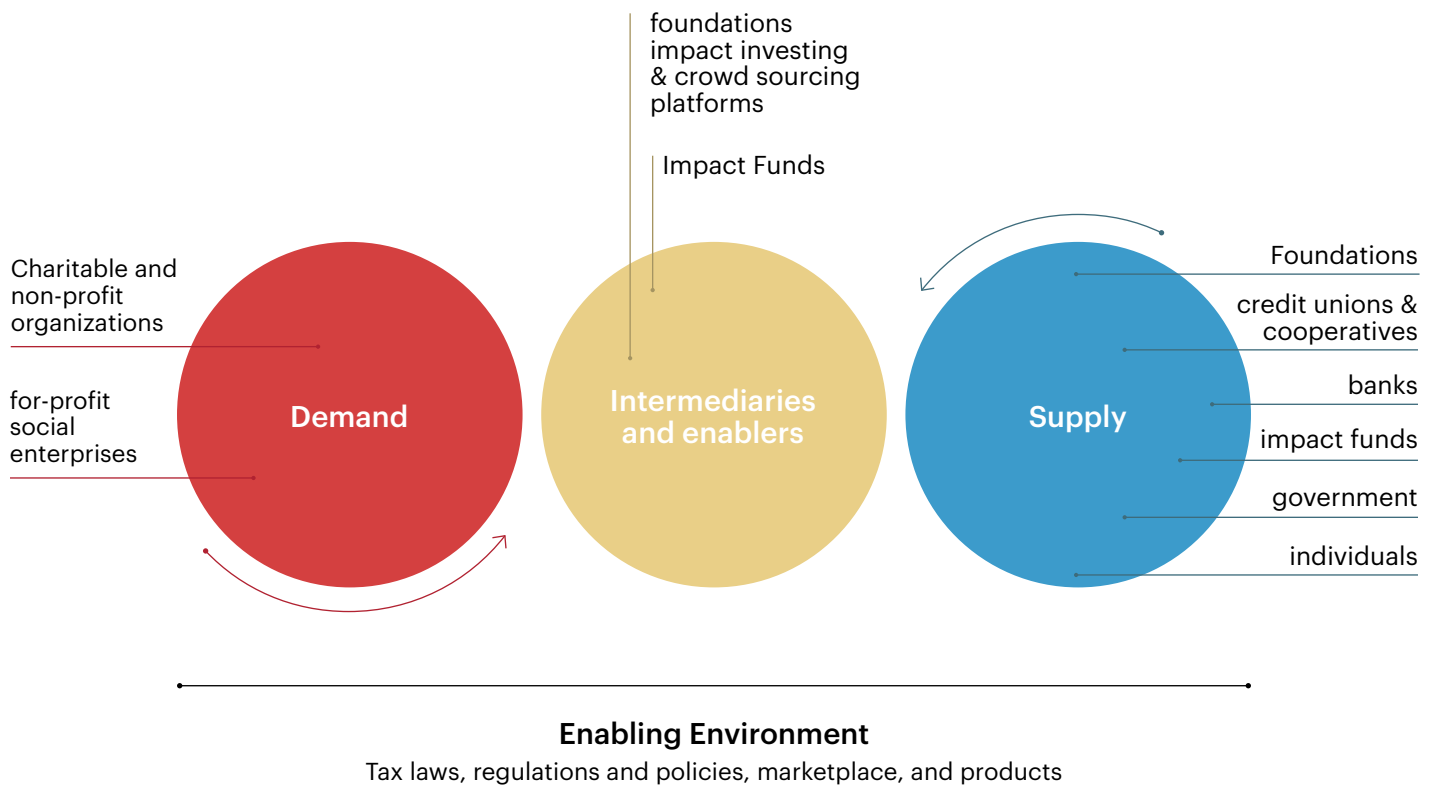
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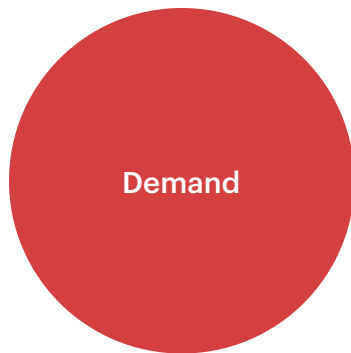
Key Players



As with any market, social finance involves a “supply and demand” equation. On the supply side are investors with money to put into projects, and on the demand side are organizations and businesses seeking financing to do their work. Between the two sides are “intermediaries” who provide services to facilitate transactions.

Social Issues—Environmental, Social, Cultural





The demand side of the equation refers to a wide range of different organizations including non-profits, for-profits, charities, and social purpose businesses. Sometimes known as the “borrowers,” they range from large, sophisticated non-profit organizations to small, community-based start-ups.

CHARITABLE AND NON-PROFIT SECTOR

Canada’s charitable and non-profit sector is one of the largest in the world with more than 170,000 organizations playing an important role in both the economy and society.¹² Charities and nonprofits provide a wide range of services and programs that touch virtually all aspects of our society: health, social justice, safety, human rights, environment, sports, faith, arts and culture.

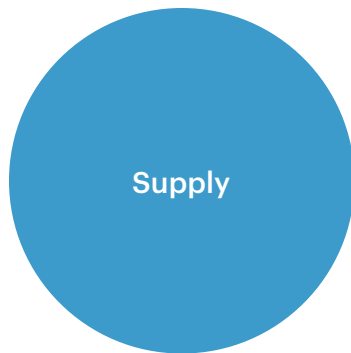
A discussion paper by Imagine Canada released in 2016 noted that the need for the non-profit sector’s services is likely to continue to increase. At the same time, the risk of slower economic growth overall “will challenge both the non-profit sector and governments to broaden policy horizons, think more in the long-term, embrace a wider range of financial and other options, and explore more creatively the close connections between the charitable and non-profit sector and economic policy.”¹³

Within the charitable and non-profit sectors, the arts are an important sub-sector. Among Canada’s 86,000 registered charities, around 5%, or roughly 4,400, are in the arts and culture sector. A 2013 Imagine Canada survey of the charitable sector, which focused on earned revenue, helps illustrate the potential of the sector for further investment. The survey included over 300 arts organizations and found 99% engaged in income generating activities. The average proportion of their revenues generated from these activities was 42%, and 61% either broke even or generated surpluses from this revenue generating activity. Of the total sample of organizations, over 36% received \$500,000 or more in annual revenues, and 8% received \$5,000,000 or more.¹⁴

FOR-PROFIT SOCIAL ENTERPRISE

Over the past decade, the blending of “profit” and “purpose” has been on the rise along with the increasing popularity of the concepts of corporate social responsibility and “triple” bottom line.” (Triple referring to social, environmental, and financial.) Organizations on either side of the non-profit/for-profit divide are borrowing practices from each other. The emergence of hybrid organizational models, sometimes called social enterprises, which pursue a primarily social mission but rely on commercial revenue for sustainability, is a relatively new phenomenon in this wider context.

In the creative industries there are a wide variety of enterprises (focused on the operation of facilities, production, and distribution) that extend to fashion, culinary arts, architecture, game design, and industrial design. Such creative businesses are a potential source of quality jobs, as well as sustainable business models that can intentionally link creative industry with social impact. These business models could be interesting for organizations in the more traditional non-profit arts sector to examine and borrow from, and, perhaps even consider partnering with, to explore the possibilities of alternatives to grant and philanthropic funding.



The supply side of the social finance equation refers to those who have money to invest in social impact projects and organizations. Motivations, incentives, regulatory restrictions and comfort levels of investors vary greatly. Through the research done for this paper, it appears that the majority of impact investments in the arts and culture sector have been made by community-based impact investors. This points to the strong potential of community foundations and credit unions, among others, to engage in this work as partners.

FOUNDATIONS

In Canada, foundations have been exploring impact investing in a number of ways. These include investing in businesses, non-profit organizations, charities, and funds that generate positive social impacts, and are aligned with their own charitable mandates. As public-purpose entities with resources to invest, foundations are uniquely positioned to help grow the development of impact investing in Canada.¹⁵ For example, the **Inspirit Foundation** recently published its “100% Impact Portfolio Roadmap,” stating its commitment to align its entire portfolio with its mission and values by employing a mix of impact investing strategies.¹⁶ **The J.W. McConnell Family Foundation**, active in social finance since 2007, expects to meet and exceed its 10% target of total assets invested in impact investments by 2020.¹⁷ Community foundations, such as the **Hamilton Community Foundation** and others across the country, are also active players in impact investing. Among the range of strategies they employ is the offering of loans to charitable organizations within their local community.¹⁸ These approaches of integrating impact investments with other activities, making explicit targets for the amount allocated to impact investing, and continuing to deepen opportunities for impact investing locally and/or thematically, are all common among foundations engaging in impact investing in Canada.

CREDIT UNIONS AND FINANCIAL COOPERATIVES

Credit unions and cooperative financial institutions are built upon the principles of social responsibility, inclusion, and community engagement. In fact, many of these alternative finance institutions were doing impact investing well before it was known as such. They offer microfinance and community-investment products, such as debt-financing, for non-profits and community organizations who might not qualify for loans at other financial institutions.

The **Vancouver City Savings Credit Union**—known as VanCity—has many years’ experience providing microloans and other types of financial support to non-profits and social-purpose entrepreneurs. It describes its approach as “values-based banking.” It uses client deposits to lend to and invest in local businesses, organizations, and initiatives that create positive economic, social, and environmental impacts in the local community. Priority areas for its impact investing and lending strategy include Indigenous communities, cooperatives, labour unions and members, impact real estate, local, natural and organic food, energy and environment.¹⁹ Vancity also has a national presence through the **Vancity Community Investment Bank** (formerly known as Citizens Bank), that provides commercial mortgages and foreign exchange services, as well as lending and advisory services to impact businesses, social enterprises, and not-for-profit organizations. Since 1997, it has offered a Shared Interest Visa credit card, providing almost 100 non-profits across Canada with grants totalling approximately \$1.5 million, through donations from credit card transactions and from the bank’s pre-tax profits.²⁰

In Quebec, the *caisses populaires* are an important player in community economic development, with a long history of providing loans and other services to non-profit organizations and co-operatives. Specific to the arts and culture sector, Desjardins' *La Caisse de la culture* provides specialized financial services to the arts community, including loans, credit, group RRSPs, as well as sponsoring a number of prizes and awards.²¹ **The Caisse d'économie solidaire Desjardins** offers individuals access to impact investment instruments (*placements à rendement social*) which are distributed across social impact organizations, including non-profit housing, workplace insertion, revitalization and land protection, daycare centres, housing, and workplace cooperatives, as well as theatres, museums, community media, and editors.²²

IMPACT FUNDS

A social finance investment fund "Impact Fund," also known as a community economic development fund "CEDF," is an entity or a program that provides capital to generate market-rate or below-market-rate financial returns and measurable social returns.²³ Investments range from micro-loans of \$5,000 to individuals or startups, to larger loans of more than \$1 million.²⁴ Examples include **Community Forward Fund** (Ontario), **Social Enterprise Fund** (Alberta), and the **Saint John Community Loan Fund** (New Brunswick). A number of Impact Funds across the country were developed from or work in partnership with Canada's community foundations, and are usually local or regional in nature. According to a compilation report on the development of Impact Funds in Canada, they "tend to be small operations, even if inside a larger operation" and often dependent on a few key people for continuity and corporate knowledge.²⁵

Another example is Quebec's **Chantier de l'économie sociale Trust**, which has been providing financial support to social enterprises since 2006. The Trust is unique in a number of respects. First, its stated purpose is to provide "patient capital" with 15-year loan terms. Secondly, the Trust is created through a multi-party partnership, which includes public and private partners including a number of credit unions and cooperatives.²⁶

TRADITIONAL FINANCIAL INSTITUTIONS

Canadian chartered banks are becoming more interested in impact investing, with several offering "socially responsible investing" options for clients. In 2012, the Royal Bank of Canada launched RBC Social Finance, which includes the \$10 million Generator Fund that invests in for-profit organizations tackling social or environmental issues, as well as partnerships and other initiatives designed to help support the growth of social finance in Canada. In 2014, it released a "white paper" on social finance, noting: "while impact investing in Canada is growing in profile, activity and sophistication, it remains a relatively small niche practice."²⁷

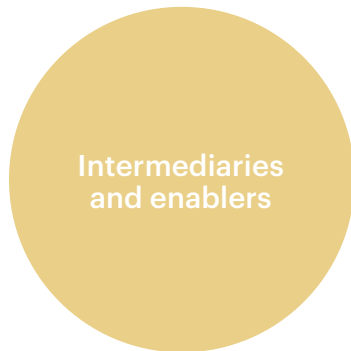
Notably, since these early announcements, other financial institutions have also begun showing interest. For example, in 2013 TD also released a white paper on impact investing. The Co-operators, a national insurance company, has also committed to investing 6–10% of its assets in impact investments by the end of 2018—the largest institutional investor commitment to impact investing in the country to date.²⁸ For traditional financial institutions, and certainly larger investors like insurance companies and pensions, impact investing is challenging because of its small scale relative to their typical investments and lending. This presents some challenge for the arts in particular, but some areas, such as new facilities development, require the size of investment that is relevant for these larger players.

INDIVIDUAL INVESTORS

Individuals who have the means and are sufficiently experienced in investing can also be key players in impact investing. These are individuals who want to see their investments make a difference in their communities and for causes they care about. However, due to limited retail investment opportunities, it is estimated that only approximately 10% of the Canadian impact investment market is available to individual investors in Canada.²⁹ That said, the emerging online retail investment market is starting to respond to demand in this area by offering various kinds of socially responsible investment opportunities.³⁰

GOVERNMENTS

In addition to playing a regulatory role, government bodies at the federal, provincial, and municipal levels have acted as investors and as partners in social finance projects, albeit mainly in a piecemeal way. Examples include exploratory work by Employment and Skills Development Canada, and initiatives like the MaRS Centre for Impact Investing and the explicit inclusion of cooperatives and non-profits in regional economic development plans and programs.³¹ Several municipalities have a history of providing loan guarantees and bridge loans to non-profits and/or working with community foundations to support impact investment initiatives. Government agencies can play an important supply-side role as they have the resources to be the “first mover” in joint projects with foundations or other bodies, and to guarantee loans, taking some of the risk out of impact investment.



Intermediaries and enablers

Intermediaries facilitate the routing of capital between supply and demand by:

- building the capacity of the demand side to attract investment and reach their intended social and financial returns;
- matching the supply side of the market to investment-ready ventures;
- brokering between the supply and demand sides through product development and deal creation; and
- enabling the market for impact investing through research, advocacy, and education.

INTERMEDIARIES AND ENABLERS

Currently, a number of supply-side players are acting as enablers for the market and engaging in intermediary activities. Many Impact Funds and foundations are also facilitating investments, providing capacity-building training and other services, and creating the enabling environment for social investment. This is largely because social finance in Canada (and to some extent globally) is in the early stages and the independent markets and retail opportunities that exist for traditional finance transactions do not currently exist in the social finance field.

An example of an intermediary/enabler that has developed out of a collaboration is the SVX (Social Venture Exchange).³² A first of its kind in North America, it is a private investment “platform” built to connect impact ventures and funds with investors. It was developed by the MaRS Discovery District and the MaRS Centre for Impact Investing in collaboration with TMX Group, supported by the Government of Ontario, Torys LLP, KPMG, The J.W. McConnell Family Foundation, Royal Bank of Canada, and Hamilton Community Foundation.³³

The platform, which was formally available only to accredited investors (those with investable assets of \$1 million or more), relaunched in fall 2017 with the ability for all investors to review investment opportunities.

Another example is Ethiquette, developed and managed by the Responsible Consumption Observatory (RCO) of UQAM’s School of Management Sciences (ESG UQAM) and Ellio. Officially launched in September 2014 during the annual conference of the UN’s Principles for Responsible Investment (UNPRI) initiative, it provides a hub for the sharing of information by responsible investment stakeholders in Quebec and Canada (organizations, NPOs, media and government), aimed largely at helping individual investors.

How does an impact investment get made?

An impact investment starts with a need for financing on the demand side, and an interest in making an investment on the supply side that can generate a financial return as well as a social impact.

In the non-profit arts sector, impact investments most commonly take the form of a repayable loan from the investor. Loans could be to finance a capital project of some kind. For example, a loan could secure a mortgage on a new space, make equipment purchases, or pay for renovations or environmental upgrades. Less frequently, it could be financing for new activity or to fund a new role in the organization where that activity can grow the organization's revenues. In some instances, the investment is to serve as a "bridge loan" to cover cash flow while an organization is waiting for grant or pledge money—that has already been secured—to become available.

In all cases, the borrower needs to have a plan for repaying the money at the agreed upon rate and within the proposed timeframe. Usually this is through a new income stream made possible by the purchase of an asset (equipment or space) or a new activity or service. These are all examples of what is called "debt financing," which means the borrower repays the loan, but does not give up any ownership of the business. This is a natural fit for charities and non-profits as they have no ownership or equity to give up.

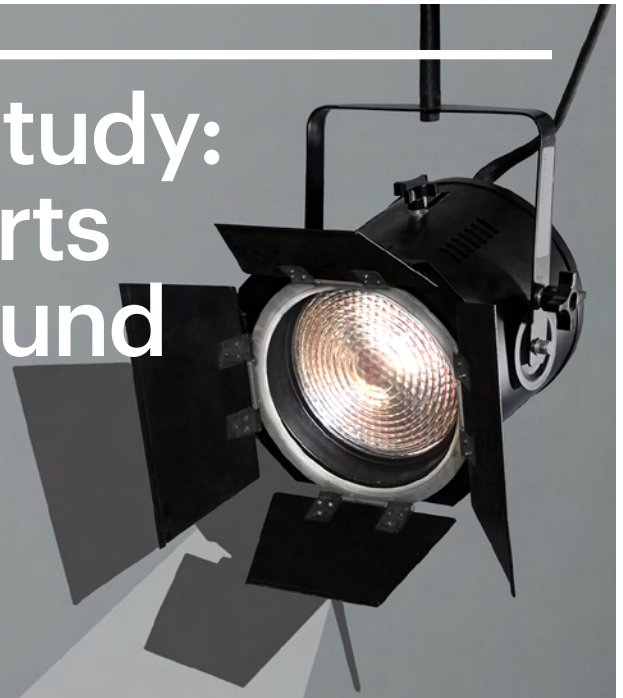
Some impact investors require the borrower, or investee, to have non-profit or charitable status while others do not, and the amount of the loan can vary significantly by lender, region, and project. There can also be requirements around other sources of funding, as some lenders will only invest as part of a partnership with other lenders. Like a regular loan from a bank or other investor, the borrower and the lender work out the terms of the loan and its repayment. With impact investing these terms will also often include agreement on the social outcomes the investment aims to achieve, and how these outcomes will be measured and reported on. Investors with a history of impact investing, like credit unions, are often less concerned with formal social indicators. Other investors, particularly new players seeking to grow the field, are sometimes more interested in working with investees to articulate and measure the social or environmental impacts of an investment.

Another vehicle for impact investing is a community bond, in which a non-profit seeks collective investment from its community by issuing bonds to individual investors, typically secured against a capital purchase of a building or other asset. These community bonds are technically loans with binding commitments to pay the investor a set rate of interest over the life of the loans, as well as returning the capital at the end of the term.

Readers may recall that Toronto's Centre for Social Innovation (CSI) was able to raise \$2 million in 2010 to purchase a building in downtown Toronto to provide space to other social-mission organizations through a mortgage-backed community bond. With the help of a loan guarantee for the mortgage from the City of Toronto, CSI started from a position of zero assets and a \$50,000 accumulated surplus, and was able to purchase and renovate the building at a total cost of \$6.8 million. Two million dollars came from 60 individual investors and three private foundations, including the Metcalf Foundation. In 2015, CSI issued a second community bond campaign to purchase another building in the same area, with 227 investors raising \$4.3 million.³⁴

04

A Case Study: the UK Arts Impact Fund



In the United Kingdom, which is widely seen as a leader in the field of social finance, arts funders and other stakeholders have been curious about the potential for social finance for some time. This interest was particularly acute over the past few years as public sector cutbacks in arts funding were looming while demand for funding was increasing. Launched in 2015 as a pilot project, the **Arts Impact Fund** is a collaborative project by Bank of America Merrill Lynch, Arts Council England, Nesta, and the Esmée Fairbairn and Calouste Gulbenkian foundations.

Run by Nesta, the pilot program provides loan-financing to eligible arts organizations, and brings together expertise from the arts sector with charitable foundations, investors, and social impact specialists in order to:

- Identify arts organizations seeking to expand or scale-up their work.
- Contribute to the debate on how to track and report on artistic and social outcomes within the wider arts sector.
- Establish understanding of the demand for social impact funding from arts-based organizations.
- Demonstrate how arts organizations can generate both financial and social returns.
- Promote case studies of arts organizations improving organizational resilience through social investment.
- Establish the fund mechanics, metrics on loss/default rates, and returns to potentially allow for a larger fund in the future.³⁵

At £7 million, the pilot program is designed to test the potential uptake for social finance by arts organizations. According to Seva Phillips, Fund Manager at Nesta, the pilot is relatively substantive, particularly when compared with other more established UK non sector-specific impact investment funds which range from £15 million–£30 million.

According to Ross Burnett, Senior Manager, Policy, at Arts Council England, the organization's interest in Arts Impact Fund included:

- The belief that taking on investment could assist arts organizations with becoming more resilient in the longer term.
- The potential to bring new funding into the arts and culture sector from social investors who haven't previously considered the area.
- The possibility of considering investments rather than grants as a funding instrument.
- The desire for arts organizations (and Arts Council England) to be able to demonstrate their impact on society.
- The opportunity to work with partners and central government in an evolving area with great potential.

How it works

Eligible arts and culture organizations can apply for repayable loans ranging from £150,000–£600,000 at an interest rate of between 4 and 7%. They need to demonstrate financial stability and artistic impact, and have an existing track record or future plans to do work in one of three priority areas: Citizenship and Community, Health and Wellbeing, and Youth and Educational Attainment.

The Arts Impact Fund supports a range of potential activities, including:

- Capital projects, including energy retrofit and/or renovations.
- Working capital for start-ups, for example human resources.
- Scaling-up or franchising existing activities to new communities.
- Bridge financing to cover gaps between grants or other funding.
- Fundraising projects.

The application process involves a high degree of hands-on involvement by the Fund, including the development of a detailed proposal by the organization with advice from Nesta staff and a due diligence process that includes site visits, viewing of work, and other activities to assess the organization's investment readiness.

Assessment process

Projects are assessed according to artistic, social, and financial impact:

- The assessment of **artistic impact** considers the quality, clarity, and ambition of the artistic vision, and the vision and history of the senior management and Board of Directors. It also includes a review of the organization's engagement with the public, how it tracks and measures its own artistic performance, and its involvement in the wider arts industry.
- The assessment of **social impact** looks at the organization's social mission (whether formal or informal), management and Board experience and leadership, and how the organization tracks its own social impacts. It looks at who the beneficiaries are and whether or not the organization engages with beneficiaries in reviewing and designing its social impact activities. The organization is also assessed on the ambition, scope, and deliverability of its social impact work.
- The **financial assessment** looks at the appropriateness of the funding request, and the clarity and quality of the organization's plans for using and repaying the funds. It considers the organization's need for the investment and how the proposed project contributes to the organization's longer-term stability. It also assesses whether the organization has sufficient governance, systems, and skills to manage the loan.
- Once funding decisions are made, there are quarterly conversations between the Arts Impact Fund and funded organizations. These are used to track a combination of standard and project-specific performance indicators in each of the three areas (artistic, social, financial) to assess whether objectives are being met.

Results from the fund

In two years of operation,³⁶ the Fund received close to 155 enquiries and has committed £5.4 million across 16 organizations. The next investment will be announced in the first quarter of 2018, fulfilling the commitment to £7 million.

In the first year theatre organizations made the most enquiries, but in the later rounds, “combined arts” and “other” (infrastructure and/or technology-based organizations) also sought funding. A majority of requests came from London and the South East of the country, with fewer enquiries from more rural and northern regions. However, in its second year, through added outreach, the Fund was able to diversify its geographic reach. Funded organizations included a range of disciplines and organizational models, including larger arts organizations and smaller, community-led arts groups such as:



- **Southbank Mosaics** is a visual arts organization which currently runs an open studio and works with young people from disadvantaged backgrounds, young offenders, and children and adults with disabilities or mental health problems. Many of the works created by Southbank Mosaics are through community engagement and are in public spaces (subways, parks, gardens etc.), regenerating and enlivening the local community. Arts Impact Fund investment of £600,000 will go towards the creation of The London School of Mosaic, a small educational institute that will offer the world’s first degree in mosaic art, expanding the scale of its artistic and educational activities.



- **South East Dance** in Brighton will use a £350,000 Arts Impact Fund investment to support the development of its new multi-purpose dance studio to provide a home-base for the company as well as studio space for rent, to help attract and retain talented artists in the region. In addition to its strong artistic work, South East Dance runs a number of community development programs with a strong health and wellbeing focus for vulnerable populations addressing a number of issues such as social isolation, preventing falls, and substance abuse delivered with local partners who also specialize in these areas. It also works to support artists at all stages of their careers through master classes, workshops, residences and seed-funding for experimental projects and commissioning of new works.



- **Live Theatre** in Newcastle is using a £600,000 investment to purchase a building on the city’s waterfront to convert to a restaurant that will be run by a commercial business partner. The income generated by the restaurant will go towards supporting Live Theatre’s core participation and educational activities, many of which are free and engage young people in underserved communities where there is high unemployment. Live Theatre’s business partnerships are well-established and it has past experience with purchasing and developing properties in its area and leasing them out to other tenants and businesses.



- With a £300,000 loan, **Soho Theatre** will produce an initial run of digital content for sale to broadcasters and distributors, providing a new source of income for the theatre to help support its youth outreach and employment programs. The organization undertook two years of research and development supported by a government-funded grant to explore different business models that could build upon its existing facilities, staff, and knowledge. The distribution of digital content will enable the organization to reach new audiences outside of London and also attract new and diverse audiences to its live venue.

A more complete listing of funded projects is available on the [Arts Impact Fund](#) and [Nesta](#) websites.

Key observations from the first year

In a review of its first year,³⁷ the Arts Impact Fund noted that successful applicants all shared the common characteristic of “entrepreneurship,” meaning “the ability to come up with creative ideas about business assets and models, and apply them with drive, tenacity and dynamism.”

Conversely, the biggest challenge for organizations who were unsuccessful in their applications was a “lack of clarity over either the specific business plan relating to the loan or the revenue streams generated to cover repayment” as well as risks around additional funding and/or partners. In its advice to organizations seeking investment, the Fund recommends that organizations do enough research to have: certainty about of the potential of the specific opportunity for which they are seeking investment; clear understanding of the impact on audience and other beneficiaries; and early and strong buy-in and support from Board and management for the investment project.³⁸

In terms of areas for arts organizations to learn, the Fund observed that—relative to private sector counterparts—arts organizations are not accustomed to thinking about return on investment and tend to be conservative when it comes to thinking about the potential of using debt to achieve their goals. Arts organizations also have a less developed standard of evidence than other social sectors, and less experience developing, collecting, and tracking information on results. It also found that more work needs to be done to better understand the interplay of social and artistic outcomes, and to develop more standardized language for talking about artistic impacts.

To help arts organizations improve their investment readiness, the Arts Impact Fund has an agreement with **Creative United**, who run a business support program for creative sector companies looking to access investment. When appropriate, they refer applicants to other programs. For organizations needing longer term or more intensive support or training, programs such as **Big Potential** can provide grants to develop an organization's investment readiness. They are also working with the **Reach Fund** to help organizations access pre-investment grants to build capacity where applicable.

Other organizations, with more capacity and experience with data collection and program evaluation, are encouraged to share their experience through programs such as **Project Oracle's Arts Cohort of Impact Pioneers**. After two years of operations, the Fund recognizes the importance of funded groups learning from each other, and is working on developing networking events and an online portal to ensure that investees can get to know each other as a cohort and share best practices, experiences and business models.³⁹

There is wide diversity of interests and needs across the sector. As Ross Burnett, Senior Manager, Policy Arts Council England, states “what the fund has demonstrated is that every project is different” and there isn't necessarily one common challenge among applicants when it comes to proposing ideas for the Fund. This is also reflected in the range of the amounts requested, with some as low as £1,000 and some as high as £1,000,000.

Over the course of the initiative, the Arts Impact Fund has observed a rise in interest for loans below £150,000. This suggests increased knowledge and appetite for impact investing on the part of smaller organizations and a need for a wider range of investment.

At 3–5 years, the timeframe of the loans is short, and, even though there are options for flexibility, this time frame can pose challenges for some organizations—particularly smaller ones who might need a longer horizon for paying back a substantial loan. Providing loans over longer terms could expand the pool of arts organizations applying to borrow funds, diversify the purposes of the investments, and potentially increase the average amount requested.

Next steps

By the end of the two-year investment period, the Arts Impact Fund will be on track to have fully committed its £7million capital across up to 20 projects. It is currently conducting a survey on the demand for repayable finance in the sector and will continue to work on the development of indicators and metrics regarding the impact of funded projects.

Based on the learning from the first two years of the initiative, the Fund is now looking at how to develop a more varied range of products and provide greater flexibility to meet the needs of a wider range of borrowers.

05

Opportunities for the Arts in Canada



Initial results from the Arts Impact Fund in the UK clearly demonstrate that arts organizations can have the capacity and interest to engage in this form of financing. In Canada, social finance as a field is gaining traction and despite scant mention of arts and culture in any of the formal literature on social finance or impact investing, interesting examples of arts organizations using impact investing are emerging.

Looking at examples that exist in the Canadian arts sector is a great place to start, as we begin to consider applications and possibilities for increasing the capacity of Canadian arts organizations to take advantage of this evolving field.

Mirroring the experience of the UK Arts Impact Fund pilot, loans for capital projects are the most common and potentially the most readily accessible and useful for Canadian arts organizations while activity “start-up” loans and equity investments are less accessible. This points to a common pattern where due to scale and the stronger guarantee of a return, there are more examples of investments in creative spaces and facilities. Investments in other activities tend to be smaller and more fragmented.

**Create new spaces—
finance the capital costs
of new facilities**



Artscape secured \$21.4 million in capital and program funding for the Artscape Daniels Launchpad, a new facility under construction in the Daniels Waterfront–City of the Arts development. This facility will be a unique place where creatives have access to a multi-disciplinary environment full of tools, equipment and technology, entrepreneurship programs and activities, and a marketplace of services, resources, and opportunities. In the context of impact investing, this project is an example of blended finance, which is mixing both philanthropic and repayable investment to achieve the project’s goals. While \$14.05 million was contributed by a variety of public and private philanthropic sources, including support from the **Metcalf Foundation**, an additional \$4.45 million was raised as investment via the sale of community bonds to a variety of impact investors including the **Toronto Foundation** and **Inspirit Foundation**.

In Calgary, **cSPACE** has leveraged impact investments to create new opportunities for creative careers and workspace in the city. Mixing both philanthropic and commercial capital, cSPACE has been able to transform a 100-year-old sandstone building, the former King Edward School, into a hub for creativity. Impact Investing enabled cSPACE’s purchase of the school and its grounds with mortgage financing of \$8 million invested by the **Calgary Foundation**, alongside a \$5 million dollar grant from the city of Calgary. Tenants signed on to the re-developed building, which the CEO has described as a “social enterprise,” and include a range of individual artists and organizations from the arts and cultural community, from theatre companies, textile studios and arts service organizations.

Bridge revenues and fundraising—provide working capital



The Theatre Centre benefitted from a \$1 million bridge loan from the Community Forward Fund in early 2014 to allow the organization to open its newly renovated facility and begin immediate programming. Despite having secured close to 90% of their \$6 million capital campaign goal, The Theatre Centre faced a cash shortfall with many of the pledges not due to be paid in full until a few years later. Even so, the confirmed commitments were still not enough for a traditional lender to approve the organization for a bank loan. The **Community Forward Fund** stepped up and provided The Theatre Centre with a loan to tide the company over until pledge payments were fully collected. The new facility was eagerly anticipated by the arts community, and since its opening, The Theatre Centre has become one of the most vibrant cultural hubs in the city, with its calendar full to the brim with rental companies, in-house productions, and community activities.

As Artistic Director Franco Boni explains, the funding from the Community Forward Fund became a critical element in making the Theatre Centre’s vision a reality. “Our organization has thrived since opening in the spring of 2014. We have tripled our box office sales and doubled the amount of programming and support we offer to artists. This would not have been possible without the help of the Community Forward Fund who supported us in a time when we couldn’t access financing through traditional means.” With the increased revenue from ticket sales and space rentals, along with pledge payments at regular intervals, The Theatre Centre has been able to make steady payments towards its bridge loan, has also reached its fundraising goal for the capital campaign, and anticipates retiring the debt in 2020.

Make investments for growth—for staff teams, fundraising, or other activities



In Hamilton, **Centre3 for Print and Media Arts**, an artist-run organization, dedicated to providing the arts community in the region with an affordable venue for making and exhibiting art, wanted to diversify its funding base. It used a \$35,000 loan from the **Community Forward Fund** to create the position of Development Officer. The loan provided the cash flow to hire the new position and pay the salary, while the Development Officer raised funds to repay the loan and support the organization. The loan was fully repaid, and there continues to be a Development Officer working with the organization who offers a number of programs that bring in additional revenues, such as its “Art Circle” membership program and ongoing workshops/classes.

Asked whether she would undertake this type of financing again, Executive Director Colina Maxwell said she would indeed, and would recommend other organizations consider social finance for similar projects, provided that they “have a clear idea of what the loan will be for and a clearly defined revenue stream associated with the project that can pay back the loan.”

Save costs to improve
the bottom line—
targeted project financing



The **Harbourfront Centre** upgraded its lighting to LEDs and acquired a new, more efficient boiler in a move to reduce the Centre’s utility cost while also lowering its greenhouse gas emissions. This was made possible through a \$95,000 investment via an Energy Savings Performance Agreement. The Agreement helps clients finance their energy efficiency retrofit without drawing on their capital reserves by paying off any retrofits through a portion of the utility savings generating. This project was initially invested in by the **Toronto Atmospheric Fund**, which has a clear mission to reduce greenhouse gas emissions. It was later refinanced by **CoPower**, which packaged the investment, alongside other clean investments, into small scale green bonds which were sold to retail investors across the country.

“Harbourfront Centre has made a commitment to be a leader in sustainability. We have consistently found unique and creative ways of caring for our planet. Being the host site for this new type of energy efficiency investment continues our leadership,” says Helder Melo, Chief Operations Officer, Harbourfront Centre.

Considerations for arts organizations

Conversations with numerous people engaged in social finance and impact investing, as well as with individuals in the arts sector with experience in this type of financing, reveal three key areas of consideration for arts organizations when exploring social finance.

1. Awareness and knowledge: For arts organizations, there is a lack of awareness on both sides of the borrower/investor equation. A number of the people interviewed over the course of this project indicated that awareness of social finance was generally low among boards and staff in Canadian arts organizations who are generally more used to working with traditional fundraising, grants, and earned income. Among those involved in social finance, responses were mixed. Some Canadian Impact Funds such as the Community Forward Fund and the Social Enterprise Fund have invested in a number of arts organizations and didn't see arts organizations as different from any other impact investment they might make.

There are a number of avenues for learning about impact investing. For example, the MaRS Centre for Impact Investing, a key hub for social finance in Canada for investors and investees alike, hosts an annual Social Finance Forum, in addition to other activities. More grass-roots type offerings are peer-based education clinics, coaching and workshops offered by organizations such as the Community Forward Fund. The J.W. McConnell Foundation has also developed more targeted training on social finance as part of its Innoweave toolkit which features learning modules that help non-profit organizations learn about, select, and implement new approaches.⁴⁰ The goal of the social finance learning module is to help organizations clarify what they would use the money for and assess their options for accessing financing. After participating in the social finance module, organizations can apply for implementation funding to work with a coach to further advance their project.

2. Mindset: For the borrower, impact investing requires a vision of how assets or resources, whether tangible (like a building or piece of equipment) or intangible (like programming or services) can be used to leverage investment for social good. Rather than meeting the need for financing through a one-off grant or donation, the organization seeking investment positions itself as a contributor to the community with a longer-term objective and plan for paying off the investment and meeting its goals. For Tim Jones, founder of Toronto's Artscape, the shift in mindset is one of "moving away from a place of need towards a positioning of the arts as a resource in our communities."

Artscape Daniels Launchpad programs for creative entrepreneurs, including its Creative Entrepreneur Program⁴¹ created in 2014, supports artists and creative professionals in building sustainable creative businesses—which includes new models and ways of thinking about how to make money as an artist-entrepreneur. Part of this program looks at building knowledge and skills related to business and financial administration and management, including how to test ideas and risk strategies, all of which could potentially be applied by an arts organization interested in developing a social finance project with financial support from a social finance fund or investor.

3. Measuring social impacts: While there are different perspectives on how much evidence of social impact is required for an investment to be an “impact investment” and not just a regular loan, being able to measure and articulate the benefits of the investment is important, particularly when it comes to attracting investors who haven’t considered the arts as an area for impact investment.

Although discussions of indicators and outcomes have been commonplace among arts organizations and funders for several years now, the arts generally lag behind other sectors, such as housing or literacy, when it comes to being able to make the case for specific, quantifiable social benefits. Additionally, for the arts, there is a perennial debate around the measurement of public good outcomes, as it is inevitably tied to issues of aesthetics, subjectivity, and, among many, a healthy fear of instrumentalism.

Despite these challenges, the arts sector contributes to many potential positive social outcomes. There are intrinsic values, such as the personal and interpersonal benefits that occur when individuals engage in arts activities. There are also the instrumental benefits, such as more engaged, vibrant, healthy communities. Developing a greater capacity to articulate these benefits, especially the intrinsic, could result in a heightened awareness of the value of the arts and possibly new investment streams.

Considerations for investors

The Arts Impact Fund provides an interesting example of public and private funders working together to experiment with social finance and pilot new approaches to financing the arts. While the model of social finance is more developed in the UK than in Canada, there are a number of findings from the first year of the Arts Impact Fund that could be relevant to arts funders in this country.

- 1. Support capacity building:** Arts organizations, including leaders, Boards and staff, need information and training in the elements of social finance, including how to use debt-financing and how to measure and articulate the benefits of their initiatives. Some additional support for business development training can also be helpful. Extensive communication, word-of-mouth, and sharing of lessons learned are also crucial.
- 2. Clear expectations for complex partnerships:** While there is potentially substantial opportunity to invest in facilities in the years to come, such projects will often require patience to blend investments with philanthropy, as well as collaboration and foresight to deliver on promises of social impact. Participating funders need a clear set of expectations and an understanding of the potential differences in their own objectives and appetites for risk. Government bodies, foundations, and banks all have different requirements and restrictions that can make such partnerships complex.
- 3. Right size requirements:** Similarly, there needs to be the right fit between size of investment, pay-back schedule, and the work it takes to manage the investment. For intermediary organizations, it may also make sense to separate loans for different purposes (e.g. capital investment vs investment for start-up activities) into specific streams to clarify the offer to the applicants and potentially to set aside different tools or supports for different types of projects.
- 4. Right size impact reporting:** Expectations for the level of reporting on impacts needs to be clear. There are different opinions and interpretations as to the level of tracking and reporting that is required, and how this is to be done for the social, artistic, and financial aspects of a given project.
- 5. Don't be too constraining:** For Impact Funds, it can be a challenge to get the kind of diversity that funders (particularly government funders) typically want to see in terms of geography, art form, and loan purpose while also keeping fund operating costs low. The amount of outreach and due diligence required for smaller investments and different types of projects can cost investors more than managing bigger investments to large organizations who arguably might have alternatives to social finance or be able to obtain funds from other sources.

06

Conclusion and Call to Action



Where to go from here

Research on this paper began with the assumption that social finance and impact investing were new ideas for the arts in Canada. This proved to be only partially true. It was a new way of thinking for many, but that didn't mean it wasn't already happening in various ways across the country. Digging through the literature on social finance and impact investing and talking to experts in the field revealed a variety of definitions, perspectives, and applications and a high degree of enthusiasm for its potential. And though a number of arts organizations are engaged in impact investing, few are doing so with much visibility or recognition.

The Arts Impact Fund pilot program provides an intriguing example of how an impact investment fund can be targeted to a particular non-profit sector, and that the arts sector can be entrepreneurial and adaptive when it comes to new ways of doing business. It also highlights some of the potential challenges of impact investing for a sector that sometimes requires smaller levels of investment per project and lacks the clear, quantitative social outcome measures of areas such as education, affordable housing, green technology, or other impact investing sectors.

Greater visibility of the arts as an “investable” sector and greater coordination between various players will be key to developing impact investment as a source of funding for the arts in Canada.

Arts organizations

For **arts organizations**, engaging in the broader discourse on social innovation that is happening in other sectors would be one way to start enhancing both visibility and awareness, including through participation in workshops and training. Making connections and building common cause with organizations from other parts of the non-profit sector who may have more experience with alternative financial and organizational models, could also bring some new ideas to the arts sector, and contribute to the momentum of social finance as a field. Collecting examples and building up an analysis of what works, what doesn't, and various “pros and cons” of using loan financing as opposed to grants, donations, or other types of funding could be extremely helpful for arts organizations looking for alternative ways of financing their work.

Arts funders

As seen through the Arts Impact Fund example, **arts funders** (both governments and foundations) have a particular role to play in “setting the table” for arts organizations interested in social finance. This includes supporting the emergence of new organizational models (such as collectives and social enterprises) and beginning to re-think existing assumptions, including their own willingness and readiness to use different financial instruments and approaches to support the sector.

One possibility to explore would be whether an arts funder (or consortium) could identify existing social finance funds interested in expanding their client base to the arts sector and determining if there are opportunities to “match-make” between those funds and arts organizations that are investment-ready, as well as the potential barriers keeping arts organizations from seeking investment.

Conclusion

In conclusion, impact investing presents an opportunity to apply the creativity the arts already possess in abundance to the financial and business structures that underpin artistic creation. It leverages the community benefits provided by arts organizations to encourage investment from those who seek to have their money used for social good, while also pushing arts organizations to think about the longer term sustainability of a given asset purchase or activity. It invites arts organizations to engage in a different type of relationship with those who support their work and who want to see the value and impact of the arts in our communities grow.

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Author bios

Elizabeth MacKinnon has been working for over a decade in arts and cultural policy, currently as the Director of Policy, Planning and Strategic Foresight at the Canada Council for the Arts. She has also worked in the federal government at the Department of Canadian Heritage and Treasury Board of Canada Secretariat as an analyst, researcher, and manager. Elizabeth is also a dance and interdisciplinary performance artist, working on a variety of projects as a performer, choreographer, interactive video designer, administrator, teacher, and writer. She co-directed a dance company, collective (gulp) dance projects, which performed and produced improvisational and interdisciplinary works and produced works by other artists, and also co-led Movement Arts Ottawa, an artist-run studio, for over 15 years, and was a founding Board member of Propeller Dance, a contemporary integrated dance company. She is a graduate in contemporary dance from Concordia University, and has a Master's degree in Digital Performance from the University of Hull (UK).

Christine Pellerin is an arts administrator and fundraiser with over 10 years' experience working with some of the country's leading cultural institutions including The Theatre Centre, Soulpepper Theatre, Harbourfront Centre, the Toronto International Film Festival, the National Ballet of Canada, and Cirque du Soleil. She is currently the Development Officer, Foundations at the Toronto Symphony Orchestra. As a lifelong learner, Christine holds a Bachelor of Arts (Hons.) in Theatre from York University, a post-graduate certificate in Arts Administration from Humber College, and is a first-cohort graduate of Carleton University's Masters of Philanthropy & Nonprofit Leadership program. In addition to the Metcalf Foundation's Innovation Fellowship, her research on social finance has led to her participation in the Banff Centre's *Getting to Maybe: A Social Innovation Residency* program. Most recently, Christine was selected to participate in the 2018 cohort of the Toronto Arts Council's Cultural Leaders Lab. She is proud to serve as a board member for Cahoots Theatre and the CANVAS Foundation.

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Page 28

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Page 36

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